



The Federal Reserve Board

5 Tips for Protecting Your Home from Foreclosure

1. Don't ignore your mortgage problem.

If you are unable to pay--or haven't paid--your mortgage, contact your lender or the company that collects your mortgage payment as soon as possible. Mortgage lenders want to work with you to resolve the problem, and you may have more options if you contact them early. Call the phone number on your monthly mortgage statement or payment coupon book. Explain your financial situation and offer to work with your lender to find the right payment solution for you. If your lender won't talk with you, contact a housing counseling agency. You can find a list of counseling resources at NeighborWorks (www.nw.org/network/home.asp) and on the U.S. Department of Housing and Urban Development's (HUD) website (www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm) or by calling (800) 569-4287.

2. Do your homework before you talk to your lender or housing counselor.

Find your original mortgage loan documents and review them. Review your income and budget. Gather information on your expenses, including food, utilities, car payment, insurance, cable, phone, and other bills. If you don't feel comfortable talking to your lender, contact a housing or credit counseling agency. Counselors can help you examine your budget and determine the options available to you. They may also advise you about ways to work with your lender or offer to negotiate with your lender on your behalf.

3. Know your options.

Some options provide solutions for short term help, while others provide long-term or permanent solutions. You may be able to work out a temporary plan for making up missed payments, or you may be able to modify the loan terms. Sometimes, the best option may be to sell the house. For information on different options, visit HUD's website (www.hud.gov/foreclosure/index.cfm) or Foreclosure Resources for Consumers (www.federalreserve.gov/consumerinfo/foreclosure.htm) for links to local resources.

4. Stick to your plan.

Protect your credit score by making timely payments. Prioritize bills and pay those that are most necessary, such as your new mortgage payment. Consider cutting optional expenses such as eating out and premium cable TV services. If your situation changes and you can no longer meet your new payment schedule, call your lender or housing counselor immediately.

5. Beware of foreclosure rescue scams.

Con artists take advantage of people who have fallen behind on their mortgage payments and who face foreclosure. These con artists may even call themselves "counselors." Your mortgage lender or a legitimate housing counselor can best help you decide which option is best for you. For tips on spotting scam artists, visit the Foreclosure Rescue Scams website (www.ftc.gov/bcp/edu/pubs/consumer/credit/cre42.shtm). Report suspicious schemes to your state and local consumer protection agencies, which you can find on the Consumer Action Website (www.consumeraction.gov/caw_state_resources.shtml).



Several options are available to you. Some options provide temporary solutions for short term problems, such as being one or two months behind in your mortgage due to illness. Other more permanent solutions address long term financial difficulties, such as job lay-offs or long-term unemployment. If you have an FHA-approved loan, special loan modification programs may be available to you--ask your lender about them. Unfortunately, in some cases, keeping your home may not be possible--options for handling that situation are available as well.

Temporary solutions for short-term financial problems:

- **Reinstatement:** Lenders are often willing to “reinstate” your loan if you make up the back payments in a lump sum by a specific date. A forbearance plan may accompany this option.
- **Forbearance:** Your lender may be able to provide a temporary reduction or suspension of your mortgage payments for a short period of time, such as, 3 or 4 months. After this time, your lender will work with you to create a repayment plan for the loan. You may qualify for forbearance if you have experienced a reduction in income (for example, if you have become unemployed) or an increase in living expenses (for example, higher medical bills). You must provide information to your lender to show you will be able to stick with the new payment plan.
- **Repayment plan:** Your lender may agree to a plan that includes your regular monthly payments plus a portion of the past due payments each month until your payments are caught up.

Long-term solutions or adjustments to your loan:

- **Loan modifications:** Your lender may be willing to rewrite the terms of your original mortgage loan to address your financial situation. A loan modification is designed to make your monthly payments affordable. Changes to your loan may include extending the number of years to repay and changing the interest rate, including changing an adjustable rate to a fixed rate. You may have to pay a processing fee to obtain a loan modification.
- **Partial claim:** If your mortgage is insured by a private mortgage insurance firm, your lender might help you file a claim. Some insurers provide a one-time, interest-free loan to bring your account up to date. The interest-free loan is due when you refinance, pay off your mortgage, or when you sell the property.

If keeping your home is not an option, you may want to consider these alternatives:

- **Sale:** Your lender will usually give you a specific amount of time to find a buyer and pay off the amount you owe on your mortgage. Your lender may require you to use a real estate professional who can help you sell the property.
- **Pre-foreclosure sale or short sale:** If you can't sell the property for the full amount of the loan, your lender may accept the amount you get for the selling price, even if it is less than the amount you owe. You may owe income taxes on the difference between the amount you owe and the amount you are able to pay back. Check with the Internal Revenue Service (www.irs.gov/newsroom/article/0,,id=174034,00.html) for tax information.
- **Assumption:** A qualified buyer may be allowed to assume (take over) your mortgage. Ask your lender whether this option is available to you.
- **Deed-in-lieu of foreclosure:** You may be able to “give back” your property to the lender, and the balance on the loan is forgiven. Again, there may be income tax consequences, so check with the IRS. This will not save your home, but it is less damaging to your credit rating. Some lenders impose certain restrictions on taking back property. For example, they may require that you try to sell your home at a fair market value for at least 90 days.

For more information about loan options that may address your unique situation, visit the HUD website (www.hud.gov/foreclosure/index.cfm).